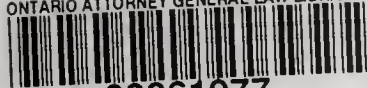


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ALCOHOL AND GAMING COMMISSION OF ONTARIO 2006-2007 ANNUAL REPORT
COMMISSION DES ALCOOLS ET DES JEUX DE L'ONTARIO RAPPORT ANNUEL 2006-2007

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Ontario

ALCOHOL AND GAMING COMMISSION OF ONTARIO 2006-2007 ANNUAL REPORT

MEMORANDUM TO: The Honourable Gerry Phillips
Minister
Ministry of Government Services

FROM: David C. Gavsie
Chair
Alcohol and Gaming Commission of Ontario

I am pleased to present the 2006-2007 Alcohol and Gaming Commission of Ontario Annual Report.

David C. Gavsie
Chair



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TABLE OF CONTENTS

Message from the Chair	3
Message from the Chief Executive Officer	5
Overview and Key Activities	7
Vision	
Mandate	
Mission	
Organizational Structure	10
Board of Directors	11
2006-2007 Operational Overview	14
Licensing & Registration	
Investigation, Enforcement and Compliance	
Ontario Gaming Facilities	
Operational Efficiencies and Highlights	
Legislative and Regulatory Updates.....	22
Performance Measures	24
Financial Performance.....	25
APPENDICES:	
Gaming: Legal Framework.....	26
<i>Criminal Code of Canada</i>	
<i>Gaming Control Act, 1992</i>	
Order-in-Council 2688/93 (as amended)	
Authority for Lottery Licensing	
First Nations Lottery Licensing	
Ontario Gaming Relationship Chart	
Alcohol: Legal Framework	29
<i>Liquor Licence Act</i>	
<i>Liquor Control Act [Section 3(1)b, e, f, g and 3(2)]</i>	
<i>Wine Content and Labelling Act, 2000</i>	

During this fiscal year, many significant changes have taken place at the Alcohol and Gaming Commission of Ontario. A major achievement was the meaningful enhancement of our Hearing Process and the introduction of new Rules of Practice for hearings held before the Board. This fiscal period was the first that reflected a full year of our new pre-hearing process and, as a result, we were able to greatly increase the number of settlements without a hearing. This new process also involved establishing administrative steps to have hearings scheduled more quickly, to provide parties with disclosure, to narrow issues between the parties before a hearing, and to encourage early settlements if the parties themselves could come to an agreement.

Hearing Process

The practice adopted during the last fiscal year of moving towards single member panels in non-complicated cases has proven to make our Hearings Process more efficient by enabling a greater number of appeals to be heard within a shorter period of time. Hearing panels now consist of one Board member where there is a single issue or occurrence in a liquor licence Notice of Proposal (NOP), or a supplementary NOP, and the penalty proposed is a liquor licence suspension of twenty-one days or less. For proposed longer suspensions, revocations, issues dealing with applications for liquor licence transfers, or in all gaming matters, a hearing panel still consists of two members as has been the practice since the inception of AGCO hearings.

I am also pleased to report that recent administrative improvements to the adjudicative process have led to significant reductions in:

- a) The time a hearing is requested by a licensee or applicant to the holding of the hearing (i.e. now 3 to 4 months, previously at least double that), and
- b) The length of time from when the request for a hearing is made to the publication of the actual Board decision once the hearing is held (i.e. now about 4 to 6 months, previously at least double that).

This improvement started in 2005/06 and the trend for the reduced delays has continued in 2006/07.

Liquor Licence Act Reform

In October 2006, the Minister of Government Services, the Honourable Gerry Phillips, tabled Bill 152 in the Legislative Assembly of Ontario which proposed a number of amendments to the *Liquor Licence Act* (LLA). The amendments were passed in December 2006 and, when proclaimed, will be the most significant reforms to our liquor legislation in over a decade. Other pending changes announced include a proposal that will amend the *Alcohol and Gaming Regulation and Public Protection Act, 1996* to permit the assessment of monetary penalties for minor violations of the LLA, as well as complementary regulatory and policy reforms that will enhance a number of aspects of the liquor licensing regime in Ontario. As a whole, these changes represent a balanced package that will reduce red tape and create a more flexible and modern liquor licensing framework in Ontario, while maintaining public safety and consumer protection rules.

This liquor licensing reform is the result of an intensive and ongoing review of the relevant liquor-related legislation and regulations in Ontario. The Ministry of Government Services (MGS) and the AGCO have been consulting with stakeholders and other ministries on the modernization of the LLA. An overwhelming number of the items included in the LLA reform package originated from or were substantially developed by the AGCO. One of these proposed changes, which came into effect in February of 2007, was the limited licensing of washroom, hallways, stairwells and other similar areas. This change now permits patrons to take and monitor their drinks in places like hallways or washrooms and reduces the likelihood of an unknown substance being added to a person's drink without their knowledge. The legislation will also allow the AGCO to use a risk-based licensing system and better target its resources. A risk-based licensing system will grant the AGCO greater flexibility in dealing with the various risks posed by different establishments and will, therefore, streamline service and ease administrative burdens for many operators. A pilot project is also being introduced as part of these liquor reforms that will allow bingo halls to sell and serve beverage alcohol to their players when a new provincial bingo revenue model is introduced later in 2007. This project will explore the viability of the sale of liquor as a potentially important additional revenue source for charities in Ontario bingo halls.

Relocation

In May 2006 we relocated our offices from downtown Toronto to a new address at 90 Sheppard Avenue East, Toronto, Ontario, M2N 0A4. This was a major undertaking which was accomplished with minimal disruption to those people we serve.

Looking back on my first full year as the Chair of the AGCO, I want to express my appreciation to each of the Board members, the staff in the Hearings Branch, our Chief Executive Officer, Jean Major, and all of the employees of the AGCO who continue to ensure the administration of Ontario's gaming and liquor laws is carried out in a fair, efficient and effective manner. I also want to thank our various stakeholders, (licensees, manufacturers, charities, municipalities and gaming operators), who have provided valuable input and advice in our many consultations and help us continue to ensure the liquor and gaming industries in Ontario are operated with honesty and integrity and in a responsible manner that protects the public interest served by the AGCO.

David C. Gavsie
Chair

This year the Alcohol and Gaming Commission of Ontario (AGCO) undertook several major initiatives which involved changes to different areas of policy, legislation and regulation and incorporated input from the various stakeholders groups. Many proposed amendments to the *Liquor Licence Act* moved forward, as did substantial reform in the area of charitable gaming with the creation of a new bingo revenue model scheduled to be implemented in the Spring of 2007.

Operations Review

As part of our long-term planning process, the AGCO develops Business Plans which set the corporate priorities and direction for the organization over a 3 to 5 year horizon. These plans assist us in establishing and delivering on key priorities and business functions, while ensuring we are well positioned to address any operational challenges that may arise. One of our commitments was to conduct a review of our organizational structure. We engaged a consultant to assist us with this project and the recommendations were provided to us in May of last year. Areas for improvements regarding operational efficiency and effectiveness and areas where staff indicated the organization required additional effort, such as improving opportunities for career/personal development, were identified. Other improvements we have made or are working on include the development of an enterprise-wide risk management framework, a review of our due diligence process to improve regulatory decision making and the development of a more comprehensive senior management report for the Board. It was also determined that more effective communication should be a corporate priority.

Charitable Gaming – Bingo Revenue Model

Following through on one of our commitments made in the “Modernization of Charitable Gaming” initiative, which began in 2005, the AGCO will be introducing a new bingo revenue model to govern charitable gaming events conducted at commercial bingo halls. The main focus of the new bingo revenue model is to provide flexibility to allow charities to respond to market changes, be more customer focused and provide an environment that allows for growth in the bingo industry. Some of the features of the new revenue model will be that all bingo hall revenues are split between the hall operator and the charitable licensees, the establishment of a new bingo marketing fund, the creation of a greater variety of games and the elimination of the distinction between municipal games and provincial games in bingo. The model was approved in principle by all of the relevant bingo stakeholders, including charities, municipal licensing authorities and bingo hall operators. There has been enormous commitment by all of the stakeholders, including the senior management and staff at all levels of the AGCO, to make this happen. Countless activities and changes have taken place or are underway in order to implement this initiative and make it operational by May 1, 2007.

Ombudsman’s Report – Ontario Lottery and Gaming Corporation

On March 26, 2007, the Ombudsman of Ontario released a report entitled “Investigation into the Ontario Lottery and Gaming Corporation’s Protection of the Public from Fraud and Theft”. The Ombudsman has made several recommendations to improve the OLG’s lottery system. One of the key recommendations is that

regulatory oversight of the provincially-operated lottery system be introduced and delegated to a separate entity such as the Alcohol and Gaming Commission of Ontario (AGCO). The Ontario government announced that it will implement all of the Ombudsman's recommendations, including the establishment of a regulatory regime to ensure the integrity and honesty of the lottery system to be administered by the AGCO. These new responsibilities will have a major impact on the AGCO's business operations and will require significant investment, including additional financial and staffing resources. We will be working together with the various ministries and agencies involved to ensure that the implementation of this new program is carried out in an effective and seamless manner and without an adverse impact on the operation of Ontario's commercial lottery system or its customers.

In the year ahead, our goal is to continue the advancement of the various initiatives now underway. We will strive to skillfully institute these changes within efficient timeframes, while continuing to also streamline and

organize our own business processes.

The AGCO remains dedicated to finding opportunities to enhance the alcohol and gaming regulatory environment in Ontario, in partnership with our stakeholders and the many agencies we work alongside, and we have made great strides with this ongoing ambition over the last year. I am confident that this progress will continue thanks to our management team, staff and all of those who regularly contribute to AGCO operations. The AGCO is committed to providing fair, effective and responsive regulatory oversight of the gaming and liquor sectors in Ontario and we will continue to ensure that our strategies and operations meet the highest standards of customer service and our clients' expectations.

Jean Major
Chief Executive Officer

OVERVIEW AND KEY ACTIVITIES

The Alcohol and Gaming Commission of Ontario (AGCO) is a regulatory agency with a governing board established February 23, 1998 under the *Alcohol and Gaming Regulation and Public Protection Act, 1996*. The AGCO also has an adjudicative role, where the Board of Directors of the AGCO hears appeals and conducts disciplinary hearings under applicable legislation, including public interest hearings.

OUR VISION: A leader in the alcohol and gaming sectors through effective regulation and services that are fair, responsive and in the broader public interest.

OUR MANDATE: To regulate the alcohol and gaming sectors in accordance with the principles of honesty and integrity, and in the public interest.

OUR MISSION: The AGCO commits to conducting business in a manner that will:

- Develop, implement and enforce fair policies and procedures.
- Establish a framework of critical regulatory controls in the public interest that are sensitive to the economic viability of the alcohol and gaming industries.
- Create a supportive work environment that respects and values AGCO staff contributions and provides them with opportunities for growth and professional achievement.
- Be client focused in the way we respond and manage client and stakeholder needs.
- Educate clients and stakeholders and develop partnerships.

KEY ACTIVITIES:

The AGCO is responsible for the administration of the following:

- *Liquor Licence Act*;
- *Wine Content and Labelling Act, 2000*;
- *Liquor Control Act [Section 3(1)b, e, f, g and 3(2)a]*;
- *Gaming Control Act, 1992*; and
- Lottery Licensing Order-in-Council, 2688/93 (as amended)

The administration of these Acts and the Order-in-Council involves the following core activities:

Regulating Ontario's Alcohol and Gaming Sectors

- Licensing and regulating Ontario's establishments that sell or serve liquor, liquor delivery services, liquor manufacturers, their agents and agents of foreign manufacturers, and brew-on-premise facilities, as well as administering the Special Occasion Permit program, delivered through designated Liquor Control Board of Ontario retail stores.
- Authorizing manufacturers' retail stores, which include on-site and off-site winery retail stores, on-site distillery retail stores and brewery retail stores, and Brewers Retail Inc. stores ("The Beer Store").

- Registering commercial suppliers and gaming employees of charitable gaming events, casinos, charity casinos, and slot operations at racetracks.
- Administering the regulatory framework governing the issuance of charity lottery licences (e.g., bingo, raffle, and break open ticket events).
- Licensing games of chance at fairs and exhibitions.
- Approving rules of play or changes to rules of play for games of chance conducted and managed by the Ontario Lottery and Gaming Corporation.
- Excluding persons from accessing gaming premises in the province of Ontario pursuant to the *Gaming Control Act, 1992* and its regulations.

Investigating, Inspecting & Monitoring

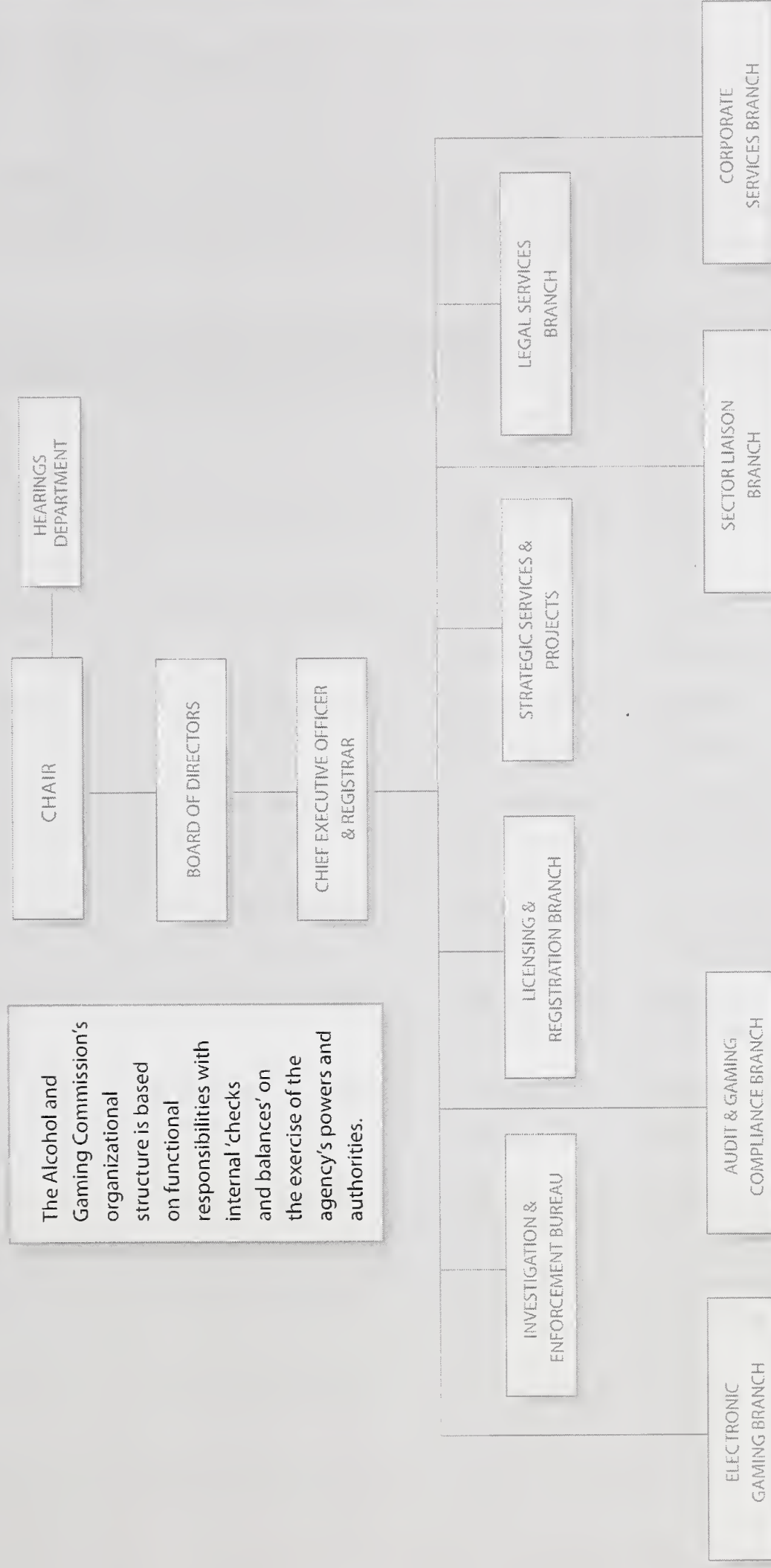
- Inspecting and monitoring licensed establishments to ensure compliance with the *Liquor Licence Act* and regulations.
- Inspecting and monitoring casinos, charity casinos, slot operations at racetracks and charitable gaming events/facilities for compliance with the *Gaming Control Act, 1992*, its regulations, and licensing and registration requirements.

- Conducting background investigations on individuals and companies seeking registration and licensing under the *Gaming Control Act, 1992* and *Liquor Licence Act*.
- Providing police presence at casinos, charity casinos and slot operations at racetracks.
- Conducting audits of companies registered and licensed under the *Gaming Control Act, 1992* and *Liquor Licence Act*.
- Approving and monitoring internal control systems, surveillance and security systems, and other operational systems for casinos, charity casinos and slot operations at racetracks for compliance with all regulatory requirements.
- Testing, approving and inspecting slot machines and gaming systems.
- the wine authority under the *Vintners Quality Alliance Act, 1999*.
- Conducting public interest hearings to determine eligibility for liquor licensed premises, additions to liquor licensed premises or revocation of liquor licensed premises where the public files objections in response to a public notice advising of the request for a licence or an amendment thereof.

Adjudication

- Conducting hearings on proposed disciplinary actions under the *Liquor Licence Act* and *Gaming Control Act, 1992*.
- Conducting hearings on Registrar's refusal to licence or register under the *Liquor Licence Act* and *Gaming Control Act, 1992*.
- Conducting compliance order hearings and hearings on the wine authority's refusal to grant an approval or suspend, revoke or refuse to renew an approval to use the terms, descriptions and designations established by

ORGANIZATIONAL STRUCTURE



BOARD OF DIRECTORS*

The *Alcohol and Gaming Regulation and Public Protection Act, 1996* constitutes the AGCO as a corporation without share capital and requires that the AGCO shall have a Board of Directors of at least five (5) members. Board members are appointed by the Lieutenant Governor in Council, through Order-in-Council.

Name	Position	Term	
DAVID C. GAVSIE	FULL TIME CHAIR	First Appointed:	November 2005
		Term Expires:	October 2008
KIRSTI HUNT	PART TIME VICE-CHAIR	First Appointed:	April 1997
		Term Expires:	April 2008
PATRICIA MCQUAID	FULL TIME VICE-CHAIR	First Appointed:	April 2003
		Term Expires:	November 2008
DIANNE M. AXMITH	PART TIME MEMBER	First Appointed:	April 2003
		Term Expires:	April 2009
BERYL FORD	PART TIME MEMBER	First Appointed:	September 2004
		Term Expires:	September 2009
BRIAN FORD	PART TIME MEMBER	First Appointed:	September 2004
		Term Expires:	September 2009
ALLAN HIGDON	FULL TIME MEMBER	First Appointed:	April 2005
		Term Expires:	March 2008
GUY MAURICE	FULL TIME MEMBER	First Appointed:	September 2006
		Term Expires:	September 2008
ALEX MCCAULEY	PART TIME MEMBER	First Appointed:	October 2005
		Term Expires:	October 2008
ELEANOR MESLIN	PART TIME MEMBER	First Appointed:	November 2000
		Term Expires:	February 2008
BRUCE R.H. MONTEITH	PART TIME MEMBER	First Appointed:	April 2003
		Term Expires:	April 2009

* The above list of Board of Directors reflects the period from April 1, 2006 to March 31, 2007, including their original appointment date.

In addition to the Board's governance role, the Board conducts appeals and disciplinary hearings and prepares decisions under the *Liquor Licence Act* and the *Gaming Control Act, 1992*. The Board also conducts public interest hearings to review applications for liquor licences or additions to licensed premises where written objections to the issuance of a licence have been filed. The Board also conducts compliance order hearings and hearings on the wine authority's refusal to grant an approval or suspend, revoke or refuse to renew an approval to use the terms, descriptions and designations established by the wine authority under the *Vintners Quality Alliance Act, 1999*.

Alcohol-Related Hearings for Fiscal Year	2005/06	2006/07
Hearing type based on Notice of Proposal issued by the Registrar of Alcohol and Gaming		
• Revoke Licence	67	73
• Refuse to Transfer/Renew Licence	12	13
• Review Licence Application	39	51
• Suspend Licence	361	319
• Attach Condition	0	2
• Refuse to Remove Condition	13	9
Total Number of Hearings (Includes all hearings for which a decision was issued between April 1 st , 2006 and March 31 st , 2007.)	492	502

BOARD OF DIRECTORS continued

Pre-Hearing Conferences	2005/06	2006/07
Number of Alcohol-Related Pre-Hearing Conferences	Not Tracked	139

Alcohol-Related Settlements without a Hearing for Fiscal Year *	2005/06	2006/07
Number of Settlements agreed to without a hearing	49	94

* This is a new alternative dispute resolution process that was introduced at the end of the 2005/2006 fiscal year.

Alcohol-Related Public Meetings for Fiscal Year *	2005/06	2006/07
Number of Public Meetings	71	67

* This is an alternative dispute resolution process

Gaming-Related Hearings for Fiscal Year	2005/06	2006/07
Total Number of Hearings	34	16

LICENSING AND REGISTRATION**Number of Liquor Licensees and Number of Permits Issued**

For Fiscal Years	2005/06	2006/07
Liquor Sales Licensed Establishments	16,748	16,827
Brew-on-Premise Facilities	615	619
Liquor Delivery Services	258	264
Manufacturers	188	203
Manufacturers' Representatives	742	770
Total	18,551	18,683
Alcohol Beverage Advertisements Reviewed	185	139
Special Occasion Permits Issued	65,426	63,681

Lottery Licences Issued by the AGCO

Lottery Licensing : A total of 2,320 lottery licences were issued by the AGCO to eligible charitable or religious organizations to conduct and manage gaming events, including bingo, break open ticket and raffle events. The total number of lottery licences issued decreased by approximately 7.8% primarily due to slowdown in the current market for charitable gaming. Charitable gaming continues to face competition, limitations and challenges from a number of different sources, including changing demographics, technological advances and competition from other gaming products.

Lottery Licences Issued For Fiscal Years	2005/06 *	2006/07 *
Bingo	1,780	1,531
Break Open Ticket (BOT)	512	548
Raffle	161	176
Social Gaming Events	59	60
Other	4	5
Total	2,516	2,320

* Municipalities issue most lottery licences.

Number of Gaming Registrants in the Province

The decrease of gaming registrants of approximately 7.4% compared to the last fiscal year can be attributed to the overall gaming environment in Ontario, particularly in regards to charitable gaming. As previously stated, charitable gaming continues to face competition, limitations and challenges from a number of different sources.

For Fiscal Years	2005/06	2006/07
Charitable Gaming		
Bingo Hall Operators	101	93
Gaming/Equipment Suppliers & Manufacturers	110	106
Break Open Ticket Sellers	5,001	4,635
Gaming Assistants	3,279	3,147
Sub – Total	8,491	7,981
Casinos and Slot Machine Facilities		
Gaming Suppliers	2,812	2,641
Gaming Employees	18,733	17,201
Sub – Total	21,545	19,842
Total	30,036	* 27,823

* The gaming industry in border communities has experienced a general decline in attendance due to a number of outside factors including a lower US dollar, border crossing delays and competition from US casinos, as a result, gaming registrations have slightly decreased.

INVESTIGATION, ENFORCEMENT AND COMPLIANCE

5,079 occurrences	<p>Approximately 5,079 occurrences at the casinos, charity casinos and slot operations at racetracks were investigated by the AGCO's Casino Enforcement Unit during this fiscal year, in addition to assisting local police with non-gaming related investigations. Only those events that result in a report being filed are considered by the AGCO's Investigations and Enforcement Bureau to be reportable occurrences. The number of occurrences has decreased from approximately 5,700 last year.</p>
45,254 electronic gaming inspections	<p>Over 45,000 electronic gaming devices, including slot machines, were inspected this year without disrupting day-to-day gaming facility operations. All electronic gaming equipment and gaming management systems must be tested, approved and inspected before the equipment can be offered for patron play to ensure that it is not susceptible to cheating and meets acceptable standards of randomness, as well as hardware and software integrity and security requirements.</p> <p>The AGCO has Electronic Gaming Officers on-site at the casinos that are responsible for inspecting new electronic gaming equipment, conducting random checks on approved electronic gaming equipment, and performing inspections on new installations and changes to slot machines.</p> <p>Additionally, the electronic gaming enforcement officers inspected 14,574 games that were converted to the ticket in/ticket out format. The conversion of these machines from a token format to a ticket format required inspections that confirmed the machines were configured correctly and free of any potential integrity/security flaws.</p> <p>A reconstruction of the entire gaming floors took place at Casino Windsor that resulted in the on-site inspection of all of the slot machines that were removed from the casino one section at a time. As a result, inspections were required for all new machines that were installed after the reconfiguration of gaming floors.</p>
23,659 liquor inspections	<p>The AGCO's Liquor Enforcement Branch continues to work closely with local law enforcement agencies on joint forces projects targeting higher risk facilities and problem establishments identified in conjunction with local authorities. As well, during this fiscal year, almost 24,000 inspections of liquor sales licensed establishments were conducted.</p>

1,042 charitable gaming inspections | AGCO liquor inspectors are trained to conduct inspections at Break Open Ticket seller locations across Ontario, and have also been cross-trained to inspect bingo facilities to ensure compliance with the *Gaming Control Act, 1992*. Inspection activities for charitable gaming events have expanded this year from Break Open Ticket seller locations to also include bingo halls and gaming suppliers.

1,017 Notices of Proposal | As a result of Liquor Enforcement's continued efforts, combined with the efforts of Licensing & Registration and Legal Services, over 1,017 Notices of Proposal to review, suspend or revoke a liquor licence were issued during fiscal year 2006/07.

Ontario Gaming Facilities

Charity Casinos	# of Slots	# of Tables	Location	Open to Public
Brantford Charity Casino	514	49	Brantford	Nov. 19/99
Great Blue Heron Charity Casino	535	60	Port Perry	May 5/00
Point Edward Charity Casino	492	36	Point Edward	Apr. 20/00
Sault Ste. Marie Charity Casino	452	30	Sault Ste. Marie	May 23/99
Thousand Island Charity Casino	520	18	Gananoque	Jun. 22/02
Thunder Bay Charity Casino	452	14	Thunder Bay	Aug. 30/00

Commercial Casinos	# of Slots	# of Tables	Location	Open to Public
Casino Niagara	1,747	138	Niagara Falls	Dec. 9/96
Niagara Fallsview Casino Resort	3,034	150	Niagara Falls	Jun. 8/04
Casino Rama	2,504	116	Orillia	Jul. 31/96
Casino Windsor	2,207	108	Windsor	Interim : May '94 Permanent : Jul. 29/98

Slots at Racetracks	# of Slots	Location	Open to Public
Ajax Downs	250	Ajax	Mar. 2/06
Clinton Raceway	108	Clinton	Aug. 26/00
Dresden Raceway	108	Dresden	Apr. 20/01
Flamboro Downs	791	Dundas	Oct. 13/00
Fort Erie Racetrack	1,111	Fort Erie	Sept. 11/99
Georgian Downs	455	Barrie	Nov. 29/01
Grand River Raceway	200	Elora	Dec. 6/03
Hanover Raceway	110	Hanover	Feb. 21/01
Hiawatha Horse Park	454	Sarnia	May 10/99
Kawartha Downs Raceway	450	Peterborough	Nov. 24/99
Mohawk Raceway	852	Milton	Aug. 12/99
Rideau Carleton Raceway	1,250	Ottawa	Feb. 18/00
Sudbury Downs Raceway	343	Sudbury	Nov. 28/99
Western Fair	750	London	Sept. 30/99
Windsor Raceway	750	Windsor	Dec. 18/98
Woodbine Raceway	1,947	Toronto	Mar. 29/00
Woodstock Raceway	110	Woodstock	Jun. 22/01

OPERATIONAL EFFICIENCIES & HIGHLIGHTS

As the regulator of the liquor and gaming industries, the AGCO strives to be fair, responsive and service oriented. Education and awareness are key components for promoting compliance within the liquor and gaming industries throughout the province. The AGCO continues to work proactively with liquor licensees and gaming registrants to assist in the development of high marketplace standards and voluntary compliance.

Auditor General's Report

In 2005, the Auditor General initiated a value for money audit of the charitable gaming program. The report, which was released in the fall of 2005, provided recommendations for improvements in 10 key areas. As part of the audit process, the AGCO appeared before the Public Accounts Committee in April 2006 to address the findings of the Auditor General. An internal working group was established to assess and implement the recommendations in preparation for the follow-up audit to be conducted next year.

Liquor Enforcement

The AGCO continues to enhance co-ordination with other provincial and local agencies with respect to liquor enforcement. As part of the AGCO's focus on enforcement efforts involving illegal activities in licensed establishments and to foster better co-ordination with other provincial and local agencies, enforcement staff have been trained with the knowledge and expertise required for the changing environment, and educational programs have been developed for local enforcement agencies in relation to liquor enforcement.

Adjudication

The AGCO Board of Directors, which has both a governance and adjudicative role, is headed by a full time Chair. The administration of the adjudicative duties of the AGCO Board includes conducting appeal and disciplinary hearings and preparing decisions under provincial liquor and gaming statutes.

In 2006/07 the Board conducted 502 liquor-related hearings, 67 public interest hearings, 16 gaming-related hearings and 139 pre-hearings. Also, in its continuing effort to improve service delivery, reduce the time frame from the date of the request for a hearing to the actual hearing date and deal with an ever increasing case load, the Board has also implemented a number of administrative improvements to the adjudicative process. It has introduced new rules of procedure and pre-hearing conferences in addition to streamlining administrative procedures. These initiatives combined have assisted the Commission in reducing the average turn around time from request of hearing to hearing date to 3 to 4 months in 2006/07 from roughly double that of an average of 12 months in 2004/2005. As a result, decisions of the Board

are being published, on average, about 6 months after the initial request for a hearing is made to the Board. The backlog of cases awaiting hearing has been cleared up.

Electronic Gaming Equipment and System Approvals

The gaming marketplace continues to change as consumer demands and increased competition in border communities continues to grow. Operators of casinos and slot facilities at racetracks are facing more and more challenges as competition for the entertainment dollar and cross-border competition becomes an increasing reality. As the regulator, the AGCO must remain responsive to the increasing demand for testing and approval of new gaming equipment and gaming management systems. In an effort to provide better service delivery to our clients, the gaming testing laboratory was significantly expanded for increased capacity and to allow for new technologies.

Investigations and Enforcement

The AGCO's Investigation and Enforcement Bureau spent considerable effort over the last year developing a foundation for a corporate-wide risk based inspection strategy. The first phase of the strategy, which is focusing on liquor licensees, was implemented in April last year. This phase of the strategy will be 24 months in duration and is aimed at collecting information on all of our liquor licensees and establishing a risk profile for each. We anticipate expanding this program to include charitable gaming events (i.e. bingo/break open tickets) early next fiscal year.

Another key undertaking which began this fiscal year was the creation of an internal working group to review our due diligence

process. Due diligence investigations are in depth examinations of potential registrants/ licensees in our liquor and gaming industries and are a key component of our overall enforcement strategy. The review is focused on ensuring the AGCO is leveraging the most efficient and effective methods to conduct its investigations in this area.

Charitable Gaming

The AGCO continued its work with bingo and break open ticket stakeholder groups in an effort to assist the charitable gaming sector to remain viable in a complex and competitive environment. The groups, which are comprised of charitable and industry association representatives, have provided assistance in implementing the AGCO's modernization agenda. Both groups have proposed initiatives to introduce flexibility to the charitable gaming regulatory framework for bingo and break open tickets and have been instrumental in developing new options for the charitable gaming industry throughout the years.

During 2006, the AGCO made significant strides in continuing to implement the directions and priorities identified in the Modernization of Charitable Gaming. Key accomplishments in this area in 2006/07 include:

► **New Revenue Model for Bingo Centres**

The AGCO engaged a consultant (HLT Advisory) to review the current bingo revenue model and make recommendations for a new provincial model. After consulting with bingo sector participants, HLT provided a comprehensive report to the Registrar with their recommendations. It is anticipated that the recommended new model will be implemented in the spring of 2007. The

proposed bingo revenue model is intended to provide for both a redistribution of existing revenues as well as opportunities to enhance the business.

The opportunity to enhance the business is accomplished by providing the customer with a positive entertainment experience, using the customer's interests to drive the business decisions. In addition, the model provides greater flexibility for games being offered, establishes a focus on the marketing of the game, and provides incentives to grow the business.

► **Revenue Model for Break Open Ticket Sales**

The Break Open Ticket Development Fund Management Committee commissioned a study to determine a new revenue model for break open tickets sold at venues other than bingo halls. The results of the study were provided to the Registrar and are being reviewed.

► **Greater Flexibility and Accountability**

The Registrar remains committed to increasing flexibility in the charitable gaming sector provided that it is balanced with clear accountability. In the "mega-raffle" sector, criteria have been implemented for considering an application for a subsequent event prior to the conclusion of the current event where there has been a demonstrated history of compliance.

► **Revised Terms and Conditions**

In consultation with our industry stakeholders, we undertook a comprehensive review of all the terms and conditions

applicable to charitable gaming events and developed a new framework whereby those requirements common to all lotteries were codified in a single set of “core” terms and conditions. Requirements unique to the different types of lottery events (i.e. bingo, raffle) will be reflected in rules specific to the type of event. The new core terms and conditions and rules of play for lottery events conducted and managed in all pooling bingo halls were completed and are set to be implemented May 1, 2007. The internal working group has also made considerable progress on the other types of events and the work should be completed in 2007/08.

Customer Service

As part of our service delivery program, AGCO staff continues to provide clients with personal service through our Customer Service Unit. During the 2006/2007 fiscal year, the customer service staff provided over 109,538 customers with assistance regarding licensing and registration issues, approximately 8,500 more than the previous fiscal year. This is in addition to handling the over 13,026 walk-in customers at the AGCO’s head office Customer Service Desk, and over 26,667 customers that were able to self-serve themselves through our integrated voice messaging system. The increase in inquiries from the previous fiscal year is due to the various statutory and regulatory amendments to the LLA, such as the limited licensing of washrooms, hallways, stairwells and other similar areas.

Media Relations

The AGCO has adopted a proactive media strategy, communicating in a timely fashion, that

helps to inform and educate the public, licensees and registrants about the AGCO’s responsibilities and activities for the licensing and enforcement of the province’s liquor and gaming industries. The AGCO issues targeted and timely media releases, and conducts media interviews relating to changes to liquor and gaming legislation, regulation and policy, and decisions rendered by the Board.

During the 2006/2007 fiscal year, the AGCO handled 487 media inquiries, which represents an increase of 28% compared to the previous fiscal year with 381 media inquiries. The increase in media calls can be attributed to a general increased interest in gaming and liquor enforcement and adjudicative matters.

AGCO Website

The AGCO is committed to providing its clients with accurate and timely information through a number of different media, including the internet. The AGCO’s website (www.agco.on.ca) provides clients and the general public with timely and easily accessible information about liquor and gaming policies administered by the AGCO. Users of the site have access to all of the registration and licensing application forms, instruction guides and all publications, annual reports and newsletters made available by the AGCO.

On average, there have been approximately 100 changes to our website every year since the site was launched. A major AGCO website project this fiscal year was the updating of all forms and publications relating to our Head Office relocation in May, 2006.

The AGCO continually works with Ministry of Government Services staff on legislative and regulatory amendments to the *Liquor Licence Act*, *Gaming Control Act, 1992* and *Wine Content and Labelling Act, 2000*. Since 2004/05, the following amendments have been approved by government:

- ▶ As of February 2007, amendments have been made to the *Liquor Licence Act* and to AGCO Policy to:
 - Accept applications from liquor sales licensees for the limited licensing of certain locations within a licensed establishment where patrons have not been permitted to have alcoholic beverages in the past, such as washrooms, hallways and stairwells.
 - Permit bingo hall operators to apply for liquor sales licences as part of a pilot project designed to help the bingo industry compete with other entertainment venues. In order to apply for a liquor licence a hall operator has to participate in the new bingo revenue model and inform their municipalities of their intention to apply for a licence.
- ▶ As of December 12, 2006, amendments have been made to the *Liquor Licence Act* and its regulations and the *Alcohol and Gaming Regulation and Public Protection Act, 1996* that, after various proclamation dates over the course of 2007, will:
 - Permit applications from Ontario wineries and breweries for a Manufacturer's Limited Liquor Sales Licence to allow them to sell and serve their wine and beer to patrons for consumption in single servings at their manufacturing site;
 - Introduce minimum liquor pricing that is intended to provide liquor sales licensees with the ability to offer responsible drink price flexibility, while also strengthening social responsibility by establishing a floor price for liquor sold in licensed establishments;
 - Enhance the investigative authority of the Registrar of Alcohol and Gaming to allow for the recovery of costs for complex investigations;
 - Create the framework for the development of a risk-based licensing system that will allow for the better targeting of resources and easing of some administrative burdens;
 - Empower the Board of the AGCO to create a schedule of monetary penalties that may be imposed for contraventions of Acts administered by the AGCO, including the LLA, and use the revenue collected for public and stakeholder education;
 - Introduce grounds to refuse or revoke a licence if the licensee/applicant is unable to demonstrate sufficient control over the business;
 - Create a two-year waiting period before a person who has had a liquor sales licence refused or revoked for reasons other than those related to the location or public interest may re-apply;
 - Transfer the authority from the Board of the AGCO to the Registrar in seven areas to better protect the public, clarify responsibilities and streamline processes;
 - Provide the Registrar with the discretion to consolidate liquor sales licences at the same premises if operated by the same licensee;

- Change the name “brew on premise” to “ferment on premise”;
- Specify a minimum two-year ineligibility for locations disqualified from hosting events held under Special Occasion Permits;
- Prevent the transfer of a licence after a Notice of Proposal (NOP) has been issued;
- Create an NOP entitled “Refuse an application for a licence to sell liquor”;
- Require licensees to take reasonable measures to deter or minimize damage caused by disorderly conduct in the vicinity of the licensed establishment;
- Establish a duty for licensees/management to maintain control over entry into their establishments, as well as the activities that take place in them;
- Allow the licensing of hotel and motel lobbies;
- Mandate that all licensees, including those issued licences prior to 1993, ensure appropriate staff members successfully complete server training by January 1, 2008;
- Prohibit the presence of alcohol without liquid (AWOL) devices, which are designed to produce a mist for inhalation, at licensed establishments;
- Allow patrons to bring sealed alcohol into licensed establishments that is bought from a government store and intended for personal use elsewhere;
- Permit the service of liquor to all persons on a golf course;
- Mandate that all liquor delivery service operators ensure that appropriate staff members successfully complete server training by January 1, 2008;
- Require liquor delivery service operators to immediately notify the AGCO of a business address change;
- Permit manufacturers’ representatives to keep existing liquor products, rather than strictly “new” products, for the purpose of providing samples;
- Clarify that liquor manufacturers’ records must be kept for a minimum of six years for inspection purposes; and
- Eliminate LLBO photo cards as a prescribed form of identification.

PERFORMANCE MEASURES

The 2006/2007 end results for performance goals established for the agency were all on target.

AGCO PERFORMANCE MEASURES – 2006/07 ¹

Goal	Output Measures	Outcome Measures	Target for 2006/07	Results
Satisfied Customers: To provide appropriate, fair and courteous customer service to all licensees and the general public.	Number of customer service feedback responses submitted and analyzed.	% of satisfied customers.	25% increase in positive feedback from AGCO customers.	92% satisfied customers.
		% of complaints investigated.	100% of complaints investigated.	100% of complaints investigated.
Efficient turnaround times are achieved for issuing liquor and gaming licences.	Number of licences issued.	% issued within 30 days of receipt.	65% of licences issued within 30 days of receipt.	93% of licences were issued within 30 days of receipt.
Internal Staff Development and Satisfaction: To provide an environment that promotes open communication, development and learning for staff.	Commitment to staff development opportunities.	Increased opportunities for staff training and secondments.	10% increase in staff training opportunities.	Spending on staff training increased 35% for calendar year 2006. An additional 9 developmental opportunities were provided to staff.
Effective and Efficient Resource Management: To ensure business processes are operating as efficiently and effectively as possible.	Turnaround time for the NOP and hearings processes.	Reduction in the average turnaround time from NOP issuance to hearing date.	Average turnaround time reduced from current 6/7 months to 4 months by 2007/08.	The average turnaround time was reduced to 4-5 months (45 working days).
Business/Operational Excellence: Risk management strategies employed across the AGCO.	Development of enterprise risk management strategy.	Risks to organization and operational effectiveness controlled / reduced.	All branches / Divisions in AGCO assessed during development of enterprise risk management strategy.	All branches have been assessed to determine level of risk, specific branch risks, systemic risks and potential impacts of risks.

¹ Ministry of Government Services Priority – Create a Modern Regulatory Framework to Protect Consumers and Facilitate Economic Growth.

FINANCIAL PERFORMANCE

The Alcohol and Gaming Commission of Ontario (AGCO) remits all revenues collected to the government's consolidated revenue fund (CRF) and operates within a separate budget allocation contained in the Ministry of Government Services' printed estimates. For the fiscal year ending March 31, 2007, the AGCO managed all operating expenditures within its budget allocation.

2006/2007 Fiscal Year: Revenues and Expenditures

For Fiscal Years	Apr. 1, 2005 to Mar. 31, 2006	Apr. 1, 2006 to Mar. 31, 2007
Revenues		
Fees & Levies	\$550,703,529	\$499,373,068*
Total	\$550,703,529	\$499,373,068
Expenditures		
Salaries and Benefits	\$35,573,494	\$36,469,593
Other Direct Operating Expenses	\$10,858,521	\$10,800,917
Less Recoveries	(\$6,915,929)	(\$7,103,283)
Total	\$39,516,086	\$40,167,227

* Please note that Wholesale Purchases for Liquor fees was rescinded on January 16, 2006.

Audit

The AGCO is subject to Ministry of Government Services review and audit. In addition, the AGCO is subject to Provincial Audits and additional audits that the Minister may require.

Criminal Code of Canada

The *Criminal Code of Canada* (the “Code”) establishes what types of gaming activities are legal, and the provinces are assigned responsibility for operating, licensing and regulating legal forms of gaming.

Part VII of the *Code* prohibits gaming in general, while Section 207 (1) allows for a number of exceptions to the general prohibition. Specifically, it permits “lottery schemes” provided that they are:

- “Conducted and managed” by the province in accordance with any law enacted by that province;
- “Conducted and managed” by a licensed charitable or religious organization provided that the proceeds of the lottery scheme are used for a charitable or religious purpose; and
- “Conducted and managed” by a licensed board of a fair or exhibition or by an operator of a concession leased by that board.

“Lottery schemes” are defined under the *Code* but do not include: three-card monte, punch board or coin table; book-making, pool selling or the making or recording of bets; and games operated through a computer, video device or slot machine, unless the lottery scheme is managed and conducted by the province (Sec. 207(4)).

Only the government of a province can conduct and manage a lottery scheme involving dice, slot machines or other computer devices.

Gaming Control Act, 1992

The *Gaming Control Act, 1992* (formerly the *Gaming Services Act*), which was proclaimed in February of 1993, provides for the regulation of

gaming operations, suppliers and gaming assistants/employees of casinos, charity casinos, slot machine facilities and charitable gaming events.

Order-in-Council 2688/93 (as amended)

Order-in-Council 2688/93 (the “OIC”) provides that charitable organizations may be licensed to conduct and manage lottery events by either the Registrar appointed under the *Gaming Control Act, 1992* (the “Registrar”) or, depending on the type of charitable gaming event and the value of prizes to be awarded, by a municipal council. The OIC outlines terms and conditions that apply to lottery licences. The OIC also provides that the Registrar may attach additional terms and conditions to any licences he or she issues, and that municipal councils may attach terms and conditions to licences they issue provided they do not conflict with those of the Registrar.

In order to qualify for a lottery licence, an organization must have a “charitable object or purpose”. Charitable object or purpose is defined at common law and under the OIC as any object or purpose relating to:

- The relief of poverty;
- The advancement of education;
- The advancement of religion; or
- Any other purpose beneficial to the community.

The AGCO estimates money spent annually by the public on charitable gaming province-wide at approximately \$1.4 billion. Licensed charitable gaming in Ontario benefits thousands of local community charitable organizations. The AGCO estimates that charitable organizations in Ontario raised approximately \$213 million by holding licensed lottery events.

2006 Estimate of Province-Wide Charitable Gaming Revenues

	Gross Wager	Net Revenues	Charity Profit
Bingos	\$805,000,000	\$213,000,000	\$88,000,000
Break Open Tickets	\$275,000,000	\$ 91,000,000	\$34,000,000
Raffles	\$316,000,000	\$185,000,000	\$91,000,000
Total	\$1,396,000,000	\$489,000,000	\$213,000,000

Authority for Lottery Licensing

Municipalities and the AGCO have responsibility for issuing lottery licences.

The Order-in-Council provides municipalities with licensing authority for:

- bingo events, including table board bingo, with prizes of up to \$5,500;
- media bingo events with prizes up to \$5,500;
- break open tickets for local organizations;
- raffles up to \$50,000 in prizes; and
- bazaar lotteries which include: wheels of fortune with a maximum bet of \$2.00, raffles not exceeding \$500, and bingo events up to \$500.

The Registrar of Alcohol and Gaming is the licensing authority for:

- bingo events over \$5,500 in prizes; super jackpot bingo events; progressive bingo game events;
- social gaming events (i.e., table game event held in conjunction with a social event);
- raffles over \$50,000;
- break open tickets sold in conjunction with other gaming events;
- break open tickets sold by organizations with a provincial mandate;

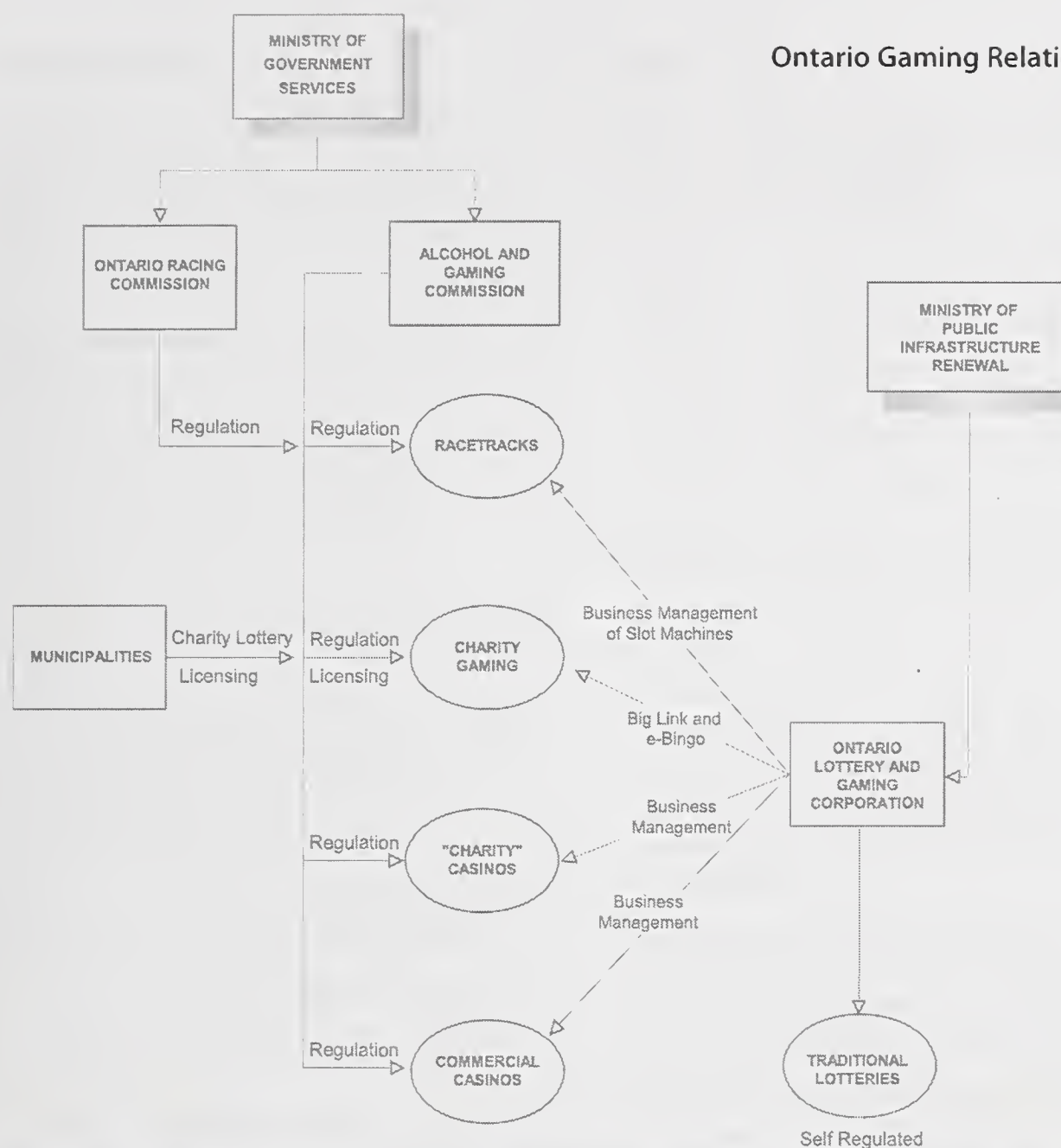
- fairs and exhibitions and lotteries held in unorganized territories.

The AGCO establishes the framework for municipalities to exercise their authority by establishing the terms and conditions for each type of licence, providing direction regarding determining eligibility of organizations for licensing, as well as providing assistance with compliance and enforcement. Compliance staff handles many inquiries from municipalities seeking guidance on the interpretation of licensing policies and terms and conditions. In addition, compliance staff provides information and training sessions for municipalities, licensing officers, charities and suppliers.

First Nations Lottery Licensing

In 1998, the government approved a First Nations lottery-licensing framework, which delegates authority comparable to that of municipalities to individual First Nations. An Order-in-Council (OIC) is issued to each participating First Nation. The OIC provides First Nations with authority to issue licences to religious and charitable organizations to conduct lottery schemes.

Ontario Gaming Relationships



The Alcohol and Gaming Commission of Ontario is responsible for the regulation of casinos, charity casinos and slot machine facilities (i.e., slot operations at racetracks).

In accordance with the *Criminal Code of Canada* and the *Ontario Lottery and Gaming Corporation Act, 1999*, the Ontario Lottery and Gaming Corporation (OLGC) is responsible for the "management and conduct" of the gaming operations at commercial casinos, charity casinos, slot machine facilities, the linked "Big Link Bingo" game played at charity bingo halls and e-bingo pilots. The OLGC is also responsible for the regulation and business management of all traditional lottery games such as "Super Seven", "6/49" and scratch and win type tickets.

Municipalities and the AGCO have responsibility for issuing lottery licences – the majority of lottery licences are issued by municipalities in the province – primarily to religious and charitable organizations for bingo and break open ticket licences.

Liquor Licence Act

The *Liquor Licence Act* establishes the licensing and regulatory regime for the sale and service of beverage alcohol in Ontario (except for retail sale to the public by the Liquor Control Board of Ontario).

Various classes of licences and permits are established including:

- licence to sell beverage alcohol;
- licence for brew-on-premise facilities;
- licence for liquor delivery service;
- manufacturers' licence;
- licence to represent a manufacturer of beverage alcohol; and
- special occasion permits for the sale and service of beverage alcohol on special occasions. For example, cash bars at fundraising events, weddings and receptions.

The *Liquor Licence Act* also establishes the rules for sale and service of beverage alcohol, including:

- no sale or service to persons under the age of 19;
- no sale or service to persons who appear to be intoxicated;
- no sale of beverage alcohol before 11:00 a.m. or after 2:00 a.m. (unless otherwise stipulated);
- no sale of illegal beverage alcohol; and
- where beverage alcohol may be consumed (residence, licensed premises, private place).

The *Liquor Licence Act* and regulations provide for an inspection and enforcement regime to ensure that licensees and permit holders are in compliance with the law and regulations relating to the sale and service of beverage alcohol.

Liquor Control Act [Section 3(1)b, e, f, g and 3(2)a]

Effective July 3, 2001, the Alcohol and Gaming Commission of Ontario assumed responsibility from the LCBO for the following:

1. To control the delivery of liquor to the public;
2. To authorize manufacturers of beer and spirits and wineries that manufacture Ontario wine to sell their spirits, beer or Ontario wine in stores owned and operated by the manufacturer or winery and to authorize The Beer Store to operate stores for the sale of beer to the public;
3. To control and supervise the marketing methods and procedures in stores owned and operated by manufacturers and wineries referred to in number 2;
4. To determine, subject to the *Liquor Licence Act*, the municipalities within which stores owned and operated by manufacturers and wineries referred to in number 2 shall be established or authorized and the location of such stores in municipalities;
5. To establish conditions, subject to any regulation, with respect to authorizations for stores owned and operated by manufacturers and wineries referred to in number 2; and
6. To establish conditions, subject to any regulations, with respect to authorizations granted with respect to the delivery of liquor to the public.

Wine Content and Labelling Act, 2000

The *Wine Content and Labelling Act, 2000* specifies that an Ontario winery may manufacture and sell wine in the province using imported grape or grape products. If an Ontario winery uses imported grapes or grape products in manufacturing its wine, the content of each bottle of wine manufactured by the winery must be no less than 30% Ontario grapes or grape product.

